

**SUMMARY OF MAJOR CHANGES TO
DOD 7000.14-R, VOLUME 6B, CHAPTER 3
“MANAGEMENT’S DISCUSSION AND ANALYSIS AND OTHER
ACCOMPANYING INFORMATION”**

Substantive revisions are denoted by a ★ preceding the section, paragraph, table, or figure that includes the revision

PARA	EXPLANATION OF CHANGE/REVISION	PURPOSE
030101	Add reference to the Reports Consolidation Act	Add reference
Throughout	Change title from Overview to Management’s Discussion and Analysis for consistency in reporting.	For reporting consistency

TABLE OF CONTENTS

★ MANAGEMENT'S DISCUSSION AND ANALYSIS AND OTHER ACCOMPANYING INFORMATION

- ★0301 Introduction
- ★0302 Organization and Presentation of Management's Discussion and Analysis
- ★0303 Other Accompanying Information

CHAPTER 3**★ MANAGEMENT'S DISCUSSION AND ANALYSIS AND OTHER ACCOMPANYING INFORMATION****0301 INTRODUCTION**

★ 030101. The Management's Discussion and Analysis (MD&A) of the reporting entity is the first part of the presentation of an annual audited statement and is intended to present an integrated discussion of the reporting entity's programs and financial performance in accordance with the provisions of section 3516(e) of title 31 United States Code, as enacted by the Reports Consolidation Act of 2002 (P.L. 106-531).

★ 030102. For many readers (e.g., nonaccountants), the MD&A serves as the only opportunity to make the technical presentations clear and useful. For many high-level decision makers, it must convey substantive information and conclusions when time does not permit those individuals to make an in-depth analysis of the technical information. The MD&A must give readers a clear and concise description of the reporting entity and its mission, an understanding of its activities, program and financial performance, systems, controls, legal compliance, financial position, and financial condition. In addition, it should tell the reader how well that mission is being accomplished and what, if anything, needs to be done to improve either program performance or financial performance. The MD&A should be a collaborative effort of the financial management offices and the program offices.

★ 030103. To accomplish this purpose, the MD&A must be more than simply a summary of the information contained in the Principal Statements. The preparer of the MD&A must consider and select performance measures and data relevant to the reporting entity's mission and activities; analyze the data and distinguish what they disclose about the entity's accomplishments or lack thereof; determine whether and why the results might vary from prior years, established standards or similar entity's results; write concise narratives; and display information in stylistically creative ways by, for instance, using charts and graphs. Moreover, in preparing the MD&A, the preparer must consider not only program performance, but also financial performance and the relationship of program performance to the reporting entities financial condition and results. The preparer must develop and retain adequate documentation supporting the financial, statistical, and other information presented in this MD&A section.

★ 030104. The MD&A should incorporate the strategic initiatives of the Department of Defense (DoD) as provided in the Secretary's "Annual Report to the President and the Congress." The presentation should relate to the general goals and objectives for the agency's major functions; the resources, systems, and processes that are critical to achieving these goals; how the general goals and objectives will be achieved; and a description of key external factors that could affect achievement of these general goals.

★ 030105. At a minimum, the MD&A should contain sections that address the entity's mission and organizational structure; performance goals, objectives, and results; financial statements; and systems, controls, and legal compliance. Because the MD&A must be concise if it is to be useful, management must select the most important matters to discuss. This means that some issues that are material to the financial statements, notes, and other sections of the audited financial statements may not be discussed in the MD&A.

★ 030106. The MD&A should deal with the "vital few" matters, i.e., the most important matters that will probably affect the judgments and decisions of those who rely on the audited financial statements as a source of information. Matters to be discussed and analyzed are those that may lead to significant actions or proposals by top management; be significant to the managing, budgeting, and oversight functions of the Congress and the Administration; or significantly affect the judgment of citizens about the efficiency and effectiveness of their federal government.

★ 030107. The MD&A should identify critical areas in need of financial and management improvement, and address corrective actions. Actions needed, taken, or planned may be discussed within the sections outlined in section 0302 of this chapter, or in a separate section of the MD&A.

★ 030108. The MD&A should include a narrative discussion and analysis of the financial condition of the reporting entity. This discussion should present information based on the results of an analytical review of relevant financial and performance data of the programs, activities, and funds that make up the reporting entity.

★ 0302 ORGANIZATION AND PRESENTATION OF THE MANAGEMENT'S DISCUSSION AND ANALYSIS

★ The following is recommended to organize and present the MD&A.

030201. Message from the Component Head. Include a message from the Component head or designated individual that discusses, at a high level, the organization's mission, performance results, and financial condition. If the MD&A is included as a part of a Performance and Accountability report submitted in accordance with section 3516 of title 31, United States Code, in addition to any other content, this message should include an assessment of the completeness and reliability of the performance and financial data used in the report. It should also describe any material inadequacies in the completeness and reliability of the data as well as actions the agency can take, and is taking, to resolve such inadequacies.

030202. Description of the Reporting Entity. This section should:

A. Name the reporting entity in a clear manner that leaves no doubt as to whether the reporting entity is an entire organization or an activity or group of activities within an organization. Identify the commercial functions and the revolving, trust, and other fund accounts covered by the financial statement.

B. State the mission and major goals of the reporting entity, including reference to the entity's legislative mandate, if appropriate.

C. Identify the type and provide information on the numbers of individuals and/or groups served by or benefiting from the entity's major program(s).

D. Provide indicators of the size of the major program(s), e.g., dollars expended, population served, and the numbers of military and civilian personnel employed in carrying out the major program(s).

E. Describe the manner in which the reporting entity is organized to provide the major program(s), including information related to the geographic locations of the organization (e.g., numbers of local, district, state, and regional offices).

030203. Performance Goals, Objectives, and Results. This section should:

A. Express the entity's program and financial results in terms of relevant measures that disclose the extent to which its programs are achieving their intended objectives. The entity's financial results should be summarized in a manner that would illustrate significant indicators of its financial operations for the reporting period and changes in financial condition during the period.

B. Strive to develop and report objective measures that, to the extent possible, provide information about the cost effectiveness of programs. Measuring costs is an integral part of measuring the efficiency and effectiveness of programs. Efficiency is measured by relating outputs (the quantity of services provided) to inputs (the cost incurred to provide the services). Effectiveness is measured by the outcome or the degree to which a predetermined objective is met, and it is commonly combined with the cost information to show "cost effectiveness".

C. Report measures of program and financial performance that are consistent with information on major goals and objectives from the entity's strategic plan and to the programs featured in the Statement of Net Cost. To be useful, performance measures should: be clearly set forth, be objective and quantifiable, be meaningful and relevant, relate to measures developed in the entity's strategic planning processes, and present the outputs and outcomes of the program, not just the inputs or processes of the program.

D. Include both positive and negative results (if warranted), reflect historical and future trends (if possible), illustrate with charts and graphs (whenever possible) for easy identification of trends, explain the significance of the trends, provide comparison of actual results to goals or benchmarks, show variations from goals and plans and provide other explanatory information that would help readers understand the significance of the measures, results, and any variations from the goals or plans.

E. Include an explanation of what needs to be done and what is planned to be done to improve financial program performance, to further enhance the usefulness of the information.

★ F. Relate the performance measures presented in the MD&A to the programs' purpose and goals, be consistent with measures previously included in budget documents and published in the Secretary's "Annual Report to the President and the Congress," and the programs presented in the Statement of Net Cost. The measures in the MD&A should be limited to the entity's most significant program and financial measures. Additional measures should be presented as "Other Accompanying Information." Management has broad discretion in the manner in which performance information is displayed. Among the options available to management is a statement format similar to the Statement of Program Performance Measures illustrated in "Statement of Federal Financial Accounting Concepts No. 2." Management's display of performance information should include sufficient explanatory information that should help the readers understand the significance of the measures, the results, and any deviations from goals or plans.

030204. Financial Condition. This section should:

A. Include the following language, verbatim, for all DoD reporting entities.

The financial statements have been prepared to report the financial position and results of operations for the Department, pursuant to the requirements of the Title 31, United States Code, Section 3515(b).

While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

To the extent possible, the financial statements have been prepared in accordance with federal accounting standards. At times, the Department is unable to implement all elements of the standards due to financial management systems limitations. The Department continues to implement system improvements to address these limitations. There are other instances when the Department's application of the accounting standards is different from the auditor's application of the standards. In those situations, the Department has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent.

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to do so.

B. Include the provision, verbatim, as described in [Chapter 11](#), paragraph 110202 of this volume, if the DoD reporting entity has general property, plant and equipment (PP&E). The FASAB has rescinded the National PP&E category and replaced it with "General

PP&E". The Board has also stated that provision for general PP&E and associated cleanup costs for general PP&E shall be applied as contained in SFFAS 6. In addition, the Board recommended the composite or group depreciation methodology be continued.

C. Describe significant variations from prior year financial statements or other relevant DoD planning documents, to the extent it is relevant and important to the reporting entity.

030205. Systems, Controls, and Legal Compliance. The systems and controls discussed in this section are those that support reporting on financial and operating performance as well as compliance with applicable laws. This section should tell the reader whether internal controls (accounting and administrative) are adequate to ensure that:

A. Transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with federal accounting standards, Generally Accepted Accounting Principles, and Statements of Federal Accounting Standards.

B. Assets are properly acquired and used, safeguarded to deter theft, accidental loss or unauthorized disposition, and fraud.

C. Performance measurement information is adequately supported.

0303 OTHER ACCOMPANYING INFORMATION

★ This section of the audited financial statements follows the Required Supplemental Information Section of the statements. This section should contain, when appropriate, additional performance measures beyond those included in the MD&A. Management has broad discretion in the manner in which performance information is displayed. Management's display of performance information should include sufficient explanatory information that would help users understand the significance of the measures, the results, and any deviations from goals or plans of the reporting entity.